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## **Audit Report**

## **PROPERTY TAX: EXEMPTIONS**

**February 2003**

**Office of the City Auditor**  
**Austin, Texas**

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This report is available in our office or at our website,  
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# City of Austin

# MEMO



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February 25, 2003

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor

Subject: Audit Report on Property Tax: Exemptions

Attached is our audit report on Property Tax: Exemptions, which is part of our office's ongoing focus on revenue accountability. The purpose of this audit was to identify the value and total number of questionable property tax exemptions and possible opportunities for revenue recovery.

In general, the majority of exemptions we reviewed appeared to be legitimate. We found only a minimal number of property owners who were claiming exemptions to which they may not be entitled. Although potential recoveries from questionable exemptions are a small percentage of total property tax revenue, some attention to them may prevent future manipulation of the system.

We appreciate the cooperation and assistance we have received from the Travis Central Appraisal District and the Law Department during this audit. Their assistance enabled us to expedite our work.

A handwritten signature in black ink, reading "Stephen L. Morgan".

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor



## **ACTION SUMMARY PROPERTY TAX: EXEMPTIONS**

<b>Rec. #</b>	<b>Recommendation Text</b>	<b>Management Concurrence</b>	<b>Proposed Implementation Date</b>
01.	The City Manager should follow up with the Travis Central Appraisal District to ensure that any exemptions verified as illegitimate have been removed from the system.	Yes	Implemented
02.	To be consistent with requirements for other exemptions, the City Manager should consult with the Travis Central Appraisal District about the possibility of requiring proof of age for the Over 65 exemption.	Yes	Implemented

This audit is one of a series of audits conducted by the Office of the City Auditor (OCA) designed to review the optimization of revenue. Specifically, we have performed a review of selected property tax exemptions that affect tax revenue for the City of Austin. This audit is not intended to be an audit of the Travis Central Appraisal District (TCAD).

## **BACKGROUND**

The state property tax code mandates the administration, appraisal, and collection of property tax. The code specifies which entities are responsible for which parts of the process, and it also determines what is taxable and what is exempt from taxation. As required by the code, the TCAD is responsible for appraising property in the City's tax jurisdiction, and processing and granting applications for property tax exemptions. Each summer, the Chief Appraiser certifies the property appraisal values and tax exemption values for the City of Austin. The City contracts with Travis County to prepare and send tax bills to property owners, collect monies due, and disburse funds back to the City. The City sets the property tax rate, approves exemptions allowed within the city limits, and sets exemption amounts.

The City of Austin has six types of property tax exemptions which can be claimed against "real" property, that is, land and the structure(s) on that land. These exemptions are: Homestead Cap, Over 65, Agricultural, Historic, Disability, and Disabled Veteran. In 2002, these exemptions were valued at approximately \$3.7 billion for the City of Austin. However, it should be noted that Travis County, the Austin Independent School District, and other taxing jurisdictions offer similar exemptions, making exemption claims even more valuable to the property owner.

**EXHIBIT 1**  
**Exemption Types, Amounts, and Total Value for the City in 2002**

<b>Type of Exemption</b>	<b>Exemption Amount</b>	<b>Total Value to City</b>
Homestead Cap	Appraised property value not to increase more than 10% from previous year's value	\$2,160,296,948
Over 65	\$51,000	\$1,090,276,612
Agricultural	Variable	\$175,350,352
Historic	For residences, 100% of historic structure and 50% of land needed to access historic structure For all others, 50% of structure and 25% of land	\$110,922,108
Disability	\$51,000	\$90,336,446
Disabled Veteran	Depending on disability rating: \$5,000; \$7,500; \$10,000; or \$12,000.	\$35,095,153
<b>TOTAL</b>		<b>\$3,662,277,619</b>

SOURCE: OCA analysis based on TCAD Certification of 2002 Appraised Values.

**Homestead Cap Exemption.** This state-required cap prevents a homestead appraisal from increasing more than ten percent in value from the previous tax year. A homestead is defined as a house, condominium, or mobile home owned by the people living in the home and can include up to 20 acres of land. A person can apply for only one homestead exemption on their principal residence, even if other properties are owned out of the county or state. The homestead exemption is not necessarily lost when the property owner dies. In some instances, a spouse or children may keep the exemption.

**Over 65 Exemption.** Individuals qualify for the Over 65 property tax exemption on their homestead if they own the home and are 65 years of age or older. If a property owner dies, the surviving spouse may continue to claim this exemption as long as he/she is over 55 at the time of the property owner's death.

**Agricultural Exemption.** This exemption lowers the taxable value of land based on the land's capacity to produce crops, livestock, or timber, instead of its value on the real estate market.

**Historic Exemption.** This exemption enables the City to partially exempt certain historic structures and land from taxation. The City's Historic Landmark Commission determines eligibility for the exemption.

**Disability Exemption.** Individuals are eligible for a disability exemption on their homestead if they cannot be gainfully employed due to a physical or mental disability; or are 55 years old and blind and cannot be gainfully employed due to the blindness; and if they meet the Social Security Administration's definition for being disabled. This exemption may not be transferred to survivors in the event of the property owner's death.

**Disabled Veteran Exemption.** A disabled veteran's property tax exemption is not the same as the disability exemption. To receive a disabled veteran exemption on a home, a person must be a veteran who was disabled while serving with the U.S. armed forces or the surviving spouse or child (under 18 years old and unmarried) of a disabled veteran or of a member of the armed forces who was killed while on active duty and a Texas resident. This exemption can be applied to only one property.

When property owners sign the exemption application, they are agreeing that the facts on the application are true and correct, and that they do not claim an exemption on another residence homestead. The application language also states that it is the taxpayer's responsibility to notify the chief appraiser if and when the taxpayer's right to an exemption ends. Furthermore, a signature

indicates that the property owner understands the penalty for filing a false statement.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

Our project addressed two objectives:

- To identify the value and total number of questionable exemptions for FY 03.
- To determine, if possible, the opportunities for revenue recovery.

### **Scope**

We reviewed the TCAD's property tax accounts for the City as of September 2002.

Our audit focused on the Homestead Cap, Over 65, Disability, and Disabled Veteran exemptions. These exemptions were selected for review because they were the most likely to be affected by a change in property ownership and represented the largest percentage of the exemptions overall.

### **Methodology**

We conducted three main types of analyses of the TCAD records.

First, we analyzed the TCAD records to identify property owners with multiple properties and multiple exemptions on those properties. For those property owners with the same names, we reviewed driver's license numbers to determine whether those property owners with the same names were actually the same people. When names were concluded to be the same person, we determined which properties would lose exemptions based on which property could be identified as the principal residence. When the principal residence could not be determined, we elected to remove the exemption that would result in a lesser financial impact to the property owner.

Second, we reviewed birth dates to determine whether property owners claiming the Over 65 exemption were actually over 65 and eligible to receive the exemption. From the universe of property owners claiming the Over 65 exemption, we extracted a statistically valid, random sample of accounts. Our sample was based on a 90 percent confidence interval and a five percent

margin of error. From this sample of accounts, we identified questionable exemptions by querying a driver's license database, which listed the date of birth for the property owner.

Last, we identified deceased individuals who were still listed as property owners in TCAD records. For those records where a match was made, we determined from state obituary records for Travis County whether or not the deceased had a surviving spouse. If so, that account was allowed to keep the homestead exemption and disabled veteran exemption. Surviving spouses' ages were then researched on a driver's license database to determine whether they were allowed to keep the Over 65 exemption. If the spouse was not eligible or if survivors were not listed, we calculated the additional revenue from removing the exemption.

For all analyses, we calculated revenue owed to the City due to questionable exemptions. Specifically, we calculated what owners should have paid versus what they did pay. We also calculated potential back taxes for the last five years, using the different tax rates for those respective years.

This audit was conducted in accordance with generally accepted government auditing standards.

## **AUDIT FINDINGS**

**Although we found some discrepancies, the majority of exemptions we reviewed appear to be legitimate.**

Our audit focused on four property tax exemptions that affect the City of Austin: the Homestead Cap, the Over 65 exemption, the Disabled exemption, and the Disabled Veteran exemption. We found that a minimal number of property owners were claiming more than one homestead exemption. We also determined that although most property owners are legitimately claiming the Over 65 exemption, some claims appear to be questionable. Finally, we noted that some deceased individuals are still listed as owners on the property tax rolls, and their accounts may contain exemptions that are no longer applicable. Although potential recoveries from these questionable exemptions are a small percentage of total property tax revenue, some attention to them may prevent future manipulation of the system.

**We found that almost all property owners adhere to the limitations placed on homestead exemptions.** In fact, less than one percent of the property tax accounts we reviewed had potentially questionable homestead exemptions. The Texas Property Tax Code allows a property to qualify for a homestead



exemption if the homeowner owns the property and uses the home on the property as his/her principal residence. A homeowner may have only one homestead exemption regardless of where additional properties are located (out-of-city, out-of-state, etc.). Multiple homestead exemptions are not allowed.

The homestead exemption can be useful to a property owner in the City of Austin because the designation places a “cap” on the amount that an appraisal value can increase from one year to the next. Specifically, the “cap” prevents a home appraisal value from increasing more than ten percent from the previous tax year. As a result, removing questionable homestead designations could result in increased revenue for the City.

Our review of TCAD records indicate that at least 40 property owners were listed as owning multiple properties and claimed homestead exemptions on those multiple properties. We calculated approximately \$3,900 in additional revenue that the City of Austin could receive for property taxes in FY 03. And since property owners can be required to pay back taxes for up to five previous years, the City could realize a one-time revenue benefit of just under \$5,800. The City could realize a future monetary impact as well, but likely change in property values, property owners, and tax rates makes projecting a specific dollar amount difficult.

**Less than one percent of property owners claiming the Over 65 exemption were projected as being younger than 65 years of age, resulting in potential revenue to the City.** State property tax code allows a property owner to claim an Over 65 exemption if the property owner is 65 years of age or older and can claim a homestead exemption on his/her property. The caveat to the age requirement is that if the property owner dies, the surviving spouse is able to claim the Over 65 exemption as long as the surviving spouse is 55 years or older at the time of the property owner’s death.

We reviewed birth dates for a sample of property owners claiming the Over 65 exemption and found that two of the 268 we reviewed were not 65 years of age or older and were not the surviving spouse of a deceased property owner that originally qualified for the exemption. Extrapolating this rate of questionable exemptions to the 22,102 property owners holding the exemption, approximately 165 accounts would not be eligible for this exemption.

The City of Austin grants a \$51,000 reduction in property value for property owners with the Over 65 exemption. In FY 03, this results in a savings of \$234 in taxes for each person claiming the exemption. If this revenue were to be reclaimed from the property owners with questionable Over 65 exemptions, the City would see revenues increase by \$468 for the property owners in the sample and a potential of just over \$38,000 for the entire population for FY 03.

In addition, the potential for revenue recovery for future years is possible, as is revenue recovery from past years. However, recovery from past years will depend on when the property owner first claimed the exemption.

State law does not require proof of age to be submitted with the exemption application. However, three appraisal districts that cover the largest city/county regions in Texas, Dallas, Harris, and Tarrant counties, require proof of age in the form of birth certificates or copies of driver's licenses. Bexar, El Paso, and Travis appraisal districts do not.

**Ten percent of the individuals who died in Travis County in 2001 were still listed as property owners with exemptions in the TCAD database as of September 2002.** When a property owner dies, the exemptions on his/her property do not automatically transfer to the subsequent owner. However, some exemptions may still be applicable for the surviving spouse or surviving children. For instance, the Homestead exemption could be transferred to a surviving spouse or children as long as they are listed as the property owners and that property is their principal residence. In addition, the Over 65 exemption can be transferred to a surviving spouse as long as that surviving spouse is at least 55 years old and lives in and has ownership of the house. Furthermore, the Disabled Veteran exemption can be transferred to the surviving spouse, or to a child who is under 18 years of age and unmarried.

Our office compared TCAD's database to the State's obituary records for Travis County for 2001 and found that 398 deceased property owners were still listed on TCAD's database. Because state obituary records list the surviving spouse of the deceased individual, we were able to consider surviving spouse information when questioning exemptions and calculating revenue. Of the deceased individuals, we estimate that 122 might lose the Homestead exemption, 98 might lose the Over 65 exemption, 14 might lose the Disabled exemption, and five might lose the Disabled Veteran exemption. As a result, the City could potentially see an increase in revenue of approximately \$44,000 in FY 03. However, unlike other questionable exemptions, past or future revenue recovery is not as likely as TCAD is almost current in its review of obituary records.

## RECOMMENDATIONS

In response to this report, the Chief Appraiser of the Travis Central Appraisal District has begun to take immediate action on accounts suspected of containing questionable exemptions. Specifically, the Chief Appraiser is conducting further research on the questionable exemptions and removing those that can be verified as illegitimate.

01. The City Manager should follow up with the Travis Central Appraisal District to ensure that any exemptions verified as illegitimate have been removed from the system.

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**MANAGEMENT RESPONSE:** AGREE/IMPLEMENTED

We have been in discussions with the Chief Appraiser to ensure corrective action is taken.

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02. To be consistent with requirements for other exemptions, the City Manager should consult with the Travis Central Appraisal District about the possibility of requiring proof of age for the Over 65 exemption.

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**MANAGEMENT RESPONSE:** AGREE/IMPLEMENTED

We have discussed with the Chief Appraiser that an appropriate procedure for age verification be implemented.

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**APPENDIX A**  
**MANAGEMENT RESPONSE**

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## MEMORANDUM

**TO:** Steve Morgan, City Auditor  
**FROM:** Vickie Schubert, Acting Director of Financial Services  
**DATE:** February 21, 2003  
**SUBJECT:** Management Responses: Property Tax Exemptions Audit

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We have reviewed the recommendations by the City Auditor regarding audit on Property Tax Exemptions.

Below is the management response to each recommendation:

**Recommendation:**

01. The City Manager should follow up with the Travis Central Appraisal District to ensure that any exemptions verified as illegitimate have been removed from the system.

**Management Response:**

Agree and implemented. We have been in discussions with the Chief Appraiser to ensure corrective action is taken.

**Recommendation:**

02. To be consistent with requirements for other exemptions, the City Manager should consult with the Travis Central Appraisal District about the possibility of requiring proof of age for the Over 65 exemption.

**Management Response:**

Agree and implemented. We have discussed with the Chief Appraiser that an appropriate procedure for age verification be implemented.

I have been assigned the responsibility to ensure actions are taken on each recommendation. Please contact me if you have any questions, or need additional information.

Vickie Schubert  
Acting Director

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